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C O N F I D E N T I A L SECTION 01 OF 02 HILLAH 000118

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SUBJECT: RURAL IRAQI BANK SLUMBERS ON

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CLASSIFIED BY: Alfred Fonteneau, Regional Coordinator, REO Al
Hillah, US Department of State.
REASON: 1.4 (b), (d)

11. (C) SUMMARY: In rural Qadisiyah Province, even bank personnel have only a hazy idea of what commercial banking might be. REO staff met with Mr. Salih Mehdi, director of the Diwaniyah branch of the Rafadeen Bank, a financial institution belonging to the Ministry of Finance. Mehdi made the following points: 1) provincial branches have absolutely no autonomy. All decisions, including small loans, are made in Baghdad; 2) Bank loans are essentially limited to borrowing on real estate due to high collateral requirements; and 3) medium and long-term lending do not exist. Consequently, Mehdi stated, his bank exists primarily as a payroll service for the Iraqi Army. As of now, he noted, financial services and commercial credit have yet to arrive in Qadisiyah. As if to underscore Mehdi's points, the only other bank in Diwaniyah, an agricultural cooperative, will shortly close its doors. END SUMMARY

12. (C) Salih Mehdi, the President of the Qadisiyah branch of the Rafadeen Bank, seems like a man used to waiting. He was growing accustomed to waiting for Baghdad to give him and his staff the authority to make loan decisions. He was waiting for the long-gone Coalition Provisional Authority (CPA) to make good on its promise to provide training for six of his staff. Mehdi said he was waiting for the home office to return two vehicles given to him by CPA staff that had been whisked off to Baghdad by his superiors. Most of all, he was waiting for the opportunity to begin real banking in the provinces.

13. (C) The Qadisiyah branch had some autonomy decades ago, Mehdi explained. However, in the Saddam Hussein era, loans were only available to regime loyalists, the type of men who rare, if ever, repaid a loan. Consequently, post-Saddam, the central office had issued instructions that all loan applications, no matter how small, had to be approved in Baghdad. Despite this, Mehdi complained, communication was one-way. He rarely heard back from the main office and had no idea what innovations might be on the way.

14. (C) According to Mehdi, the Qadisiyah office had 53 staff with additional personnel in three branch offices. Total payroll was over one hundred. He contrasted his workforce with his miniscule deposits; just 5.5 billion Dinars or around 4.5 million USD with an additional 400,000 USD in "micro-finance" funds from a NGO. He noted that he had no ability to do wireless transfers; for example, in accepting remittances from overseas Iraqi workers. In fact, he added, his bank had no Internet access and no e-mail.

15. (C) Mehdi stated that loans were less than a fifth of deposits, creating balance sheet problems as he could not cover interest payments. Most loans were for terms of two to five years with interest rates from 14% to 16% depending on whether the borrower had an account with deposits at the bank. Collateral was primarily property and loans could be made up to half the market value of a house.

16. (C) "We spend most of our day making salary payments for the Army," Mehdi explained. He said that there was little formal economic activity, and if there was, he had no ability to evaluate loan applications and lend to entrepreneurs. He noted that the micro-finance loans had been quite popular given low interest, minimal paper documentation requirements, and the utility of the loans for farmers buying agricultural inputs. However, he added, the program had limited funds.

17. (C) Mehdi said he saw retailing reviving with over 30% more shop fronts open in the city this year. However, he said, most of these stall owners and small retailers were operating from money kept under the bed and brought out when the security situation seemed to be improving. He wondered whether many of those shops would close down again given that the number of shops on the street was directly dependent on how secure people felt in Diwaniyah. Currently, he noted, the bulk of provincial economic activity occurred in the government, and, he sadly noted, the Provincial Council seemed hostile to his bank.

18. (SBU) COMMENT: The lack of business sophistication in Diwaniyah is striking, given the hustle and bustle of next door neighborhood, Najaf. The commercial sleepiness in Qadisiyah is probably attributable to the province's tense and unstable security situation. Few in Diwaniyah believe that Iraqi Security Forces can reliably keep the city calm. The resulting negative impact on business is tangible. To underscore the lack of activity, the other financial institution in Diwaniyah, an agricultural cooperative, will shortly close its doors. The decision reportedly came from Baghdad after the home office had discovered that the Diwaniyah branch had not actually booked any

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loans so far this year. END COMMENT
FONTENEAU